ABSTRACT

A technique for implementing a financial instruments index maintains the level of volatility or risk associated with the index at a specified level. Specifically, the technique includes establishing a level of risk at which a risk associated with the index is to be maintained. In at least some embodiments, the level of risk may be quantified using one or more of RiskMetric Group's RiskGrade measure, standard deviation, variance, average shortfall, VAR, or any other similar or analogous measures. Once the desired level of risk has been established, the technique monitors the level of risk associated with the index for fluctuations. If detected, the technique rebalances the index by reallocating index components. More particularly, when the risk associated with the index exceeds the desired level of risk by more than a predetermined limit, assets from relatively high risk components of the index are reallocated to relatively low risk components of the index. Likewise, when the risk associated with the index drops below the desired level of risk by more than a predetermined limit, assets from relatively low risk components of the index are reallocated to relatively high risk components of the index. In this manner, the risk level associated with the index may be maintained.